



# **Appendix B - Highway Fund**

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## HIGHWAY FUND REVENUE

### REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

| Source                              | FY01 Actual        | % Chg.      | FY02 Actual        | % Chg.      | FY03 Actual        | % Chg.      | FY04 Actual        | % Chg.      | FY05 Actual        | % Chg.      | FY05 Budget        | FY05 Variance    | %<br>Variance |
|-------------------------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|------------------|---------------|
| Fuel Taxes                          | 182,502,097        | 4.5%        | 184,732,999        | 1.2%        | 187,901,008        | 1.7%        | 212,600,843        | 13.1%       | 220,484,728        | 3.7%        | 220,838,729        | (354,001)        | -0.2%         |
| Motor Vehicle Registration & Fees   | 76,317,758         | 3.0%        | 83,285,014         | 9.1%        | 83,032,421         | -0.3%       | 82,577,755         | -0.5%       | 84,645,422         | 2.5%        | 81,378,234         | 3,267,188        | 4.0%          |
| Inspection Fees                     | 2,491,237          | -5.1%       | 3,412,662          | 37.0%       | 4,169,773          | 22.2%       | 4,708,196          | 12.9%       | 4,260,059          | -9.5%       | 4,281,459          | (21,400)         | -0.5%         |
| Fines, Forfeits and Penalties       | 2,097,609          | -2.2%       | 1,958,350          | -6.6%       | 2,531,692          | 29.3%       | 1,918,703          | -24.2%      | 1,518,580          | -20.9%      | 1,890,359          | (371,779)        | -19.7%        |
| Income from Investments             | 4,241,955          | 6.1%        | 2,857,209          | -32.6%      | 1,338,794          | -53.1%      | 720,046            | -46.2%      | 1,440,739          | 100.1%      | 1,059,903          | 380,836          | 35.9%         |
| Other Revenues                      | 5,467,245          | 1.6%        | 5,737,781          | 4.9%        | 9,272,396          | 61.6%       | 9,502,442          | 2.5%        | 13,728,627         | 44.5%       | 13,817,473         | (88,846)         | -0.6%         |
| <b>Total - Highway Fund Revenue</b> | <b>273,117,902</b> | <b>3.9%</b> | <b>281,984,017</b> | <b>3.2%</b> | <b>288,246,084</b> | <b>2.2%</b> | <b>312,027,986</b> | <b>8.3%</b> | <b>326,078,155</b> | <b>4.5%</b> | <b>323,266,157</b> | <b>2,811,998</b> | <b>0.9%</b>   |

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## HIGHWAY FUND REVENUE

### REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

| Source                              | FY06 Budget        | % Chg.      | Recom. Chg.        | FY06 Revised       | % Chg.      | FY07 Budget        | % Chg.      | Recom. Chg.        | FY07 Revised       | % Chg.      |
|-------------------------------------|--------------------|-------------|--------------------|--------------------|-------------|--------------------|-------------|--------------------|--------------------|-------------|
| Fuel Taxes                          | 230,922,713        | 4.7%        | (4,145,720)        | 226,776,993        | 2.9%        | 234,955,289        | 1.7%        | (165,999)          | 234,789,290        | 3.5%        |
| Motor Vehicle Registration & Fees   | 87,172,358         | 3.0%        | 0                  | 87,172,358         | 3.0%        | 88,378,117         | 1.4%        | 0                  | 88,378,117         | 1.4%        |
| Inspection Fees                     | 4,397,970          | 3.2%        | 0                  | 4,397,970          | 3.2%        | 4,414,756          | 0.4%        | 0                  | 4,414,756          | 0.4%        |
| Fines, Forfeits and Penalties       | 1,973,665          | 30.0%       | 0                  | 1,973,665          | 30.0%       | 2,018,239          | 2.3%        | 0                  | 2,018,239          | 2.3%        |
| Income from Investments             | 1,600,000          | 11.1%       | (300,000)          | 1,300,000          | -9.8%       | 1,800,000          | 12.5%       | (450,000)          | 1,350,000          | 3.8%        |
| Other Revenues                      | 9,286,173          | -32.4%      | 0                  | 9,286,173          | -32.4%      | 9,433,331          | 1.6%        | 0                  | 9,433,331          | 1.6%        |
| <b>Total - Highway Fund Revenue</b> | <b>335,352,879</b> | <b>2.8%</b> | <b>(4,445,720)</b> | <b>330,907,159</b> | <b>1.5%</b> | <b>340,999,732</b> | <b>1.7%</b> | <b>(615,999)</b>   | <b>340,383,733</b> | <b>2.9%</b> |
| <b>Change in Biennial Totals</b>    |                    |             |                    |                    |             |                    |             | <b>(5,061,719)</b> |                    |             |

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## HIGHWAY FUND REVENUE

### REVENUE FORECASTING COMMITTEE RECOMMENDATIONS - MARCH 2006

| Source                              | FY08 Projection    | % Chg.      | Recom. Chg.      | FY08 Revised       | % Chg.      | FY09 Projection    | % Chg.      | Recom. Chg.      | FY09 Revised       | % Chg.      |
|-------------------------------------|--------------------|-------------|------------------|--------------------|-------------|--------------------|-------------|------------------|--------------------|-------------|
| Fuel Taxes                          | 242,404,759        | 3.2%        | 176,249          | 242,581,008        | 3.3%        | 249,095,135        | 2.8%        | 619,747          | 249,714,882        | 2.9%        |
| Motor Vehicle Registration & Fees   | 86,205,259         | -2.5%       | 0                | 86,205,259         | -2.5%       | 86,336,347         | 0.2%        | 0                | 86,336,347         | 0.2%        |
| Inspection Fees                     | 4,468,458          | 1.2%        | 0                | 4,468,458          | 1.2%        | 4,524,821          | 1.3%        | 0                | 4,524,821          | 1.3%        |
| Fines, Forfeits and Penalties       | 2,018,239          | 0.0%        | 0                | 2,018,239          | 0.0%        | 2,018,239          | 0.0%        | 0                | 2,018,239          | 0.0%        |
| Income from Investments             | 1,800,000          | 0.0%        | (450,000)        | 1,350,000          | 0.0%        | 1,800,000          | 0.0%        | (450,000)        | 1,350,000          | 0.0%        |
| Other Revenues                      | 9,621,183          | 2.0%        | 0                | 9,621,183          | 2.0%        | 9,687,473          | 0.7%        | 0                | 9,687,473          | 0.7%        |
| <b>Total - Highway Fund Revenue</b> | <b>346,517,898</b> | <b>1.6%</b> | <b>(273,751)</b> | <b>346,244,147</b> | <b>1.7%</b> | <b>353,462,015</b> | <b>2.0%</b> | <b>169,747</b>   | <b>353,631,762</b> | <b>2.1%</b> |
| <b>Change in Biennial Totals</b>    |                    |             |                  |                    |             |                    |             | <b>(104,004)</b> |                    |             |

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## Highway Fund - Fuel Taxes

|                         | FY03 Actual   | FY04 Actual   | FY05 Actual   | FY06          | FY07          | FY08          | FY09          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Current Forecast        | \$187,901,008 | \$212,600,843 | \$220,484,728 | \$230,922,713 | \$234,955,289 | \$242,404,759 | \$249,095,135 |
| Annual % Growth         |               | 13.1%         | 3.7%          | 4.7%          | 1.7%          | 3.2%          | 2.8%          |
| Net Increase (Decrease) |               |               |               | (\$4,145,720) | (\$165,999)   | \$176,249     | \$619,747     |
| Revised Forecast        | \$187,901,008 | \$212,600,843 | \$220,484,728 | \$226,776,993 | \$234,789,290 | \$242,581,008 | \$249,714,882 |
| Annual % Growth         |               | 13.1%         | 3.7%          | 2.9%          | 3.5%          | 3.3%          | 2.9%          |

### Revenue Source Summary:

An excise tax is imposed upon internal combustion engine fuel sold or used within this State. Beginning July 1, 2003, the rate is indexed annually for inflation. Refund of the gasoline tax paid (less 1¢ per gallon) is provided for fuel used in commercial motor boats, tractors used for agricultural purposes, vehicles used on rail and tracks or in stationary engines or in mechanical or industrial arts. Fuel used for these purposes is subject to the 5% use tax if the gasoline tax is refunded. Full refund is provided for certain common carrier passenger service vehicles.

### Revenue Source Forecast Factors and Trends:

The collection of budgeted fuel taxes is somewhat dependent on a fairly strong economy and reasonable retail prices for gasoline. In recent years, fuel taxes were over budget by \$2.1 million in FY 04 and under budget by \$0.4 million in FY 05. The impact of the hurricane-related upsurge in gasoline prices during the fall of 2005 has not yet been fully determined. Through January, revenue in this category for FY06 was under budget by \$4.9 million. Approximately, \$3.0 million of this negative variance is associated with the revenue from an unusually large audit assessment that was included in the December 2005 revenue forecast, but now has been determined to be uncollectible.

### Forecast Recommended Changes:

In its February 2006 report, the Consensus Economic Forecasting Commission again increased its CPI estimates. These have affected the projections for tax rates as indicated below. The FY06 model forecast for gasoline tax revenue was adjusted downward by \$3.0 million to reverse the unusual audit revenue that will be uncollectable. In the current fiscal year, the revised inflation forecast is not a factor in this forecast and the revised forecast of personal income drives the estimate downward by approximately \$1.1 million. The inflation factor change offsets the change in other economic variables in future years, resulting in a minor downward revision in FY07 and then upward revisions in FY08 and FY09.

| Actual and Projected Tax Rates |               |               |               |               |                |                |                |
|--------------------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
|                                | 7/1/2002 Act. | 7/1/2003 Act. | 7/1/2004 Act. | 7/1/2005 Act. | 7/1/2006       | 7/1/2007       | 7/1/2008       |
| <b>Gasoline Tax</b>            |               |               |               |               |                |                |                |
| Current Forecast               | \$0.220       | \$0.246       | \$0.252       | \$0.259       | \$0.267        | \$0.274        | \$0.281        |
| Revised Forecast               |               |               |               |               | <b>\$0.268</b> | <b>\$0.276</b> | <b>\$0.284</b> |
| <b>Special Fuel Tax</b>        |               |               |               |               |                |                |                |
| Current Forecast               | \$0.230       | \$0.257       | \$0.263       | \$0.270       | \$0.279        | \$0.287        | \$0.294        |
| Revised Forecast               |               |               |               |               | <b>\$0.279</b> | <b>\$0.287</b> | <b>\$0.295</b> |



## Highway Fund - Income From Investments

|                         | FY03 Actual | FY04 Actual | FY05 Actual | FY06        | FY07        | FY08        | FY09        |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Current Forecast        | \$1,338,794 | \$720,046   | \$1,440,739 | \$1,600,000 | \$1,800,000 | \$1,800,000 | \$1,800,000 |
| Annual % Growth         |             | -46.2%      | 100.1%      | 11.1%       | 12.5%       | 0.0%        | 0.0%        |
| Net Increase (Decrease) |             |             |             | (\$300,000) | (\$450,000) | (\$450,000) | (\$450,000) |
| Revised Forecast        | \$1,338,794 | \$720,046   | \$1,440,739 | \$1,300,000 | \$1,350,000 | \$1,350,000 | \$1,350,000 |
| Annual % Growth         |             | -46.2%      | 100.1%      | -9.8%       | 3.8%        | 0.0%        | 0.0%        |

### Revenue Source Summary:

Pursuant to 5 MRSA section 135, the Treasurer of State invests excess money in the state treasury that is not needed to meet current obligations. The Treasurer of State is authorized to invest these funds in bonds, notes, certificates of indebtedness or other obligations specified in statute. Earnings on investment of Highway Fund balances are credited back to the Highway Fund.

### Revenue Source Forecast Factors and Trends:

The major factors that affect earnings are the rates of return on investments and the balances of cash available for investment. These factors are heavily influenced by the economy, the budget and the Treasurer's investment policies.

Economy - Interest rates have been near historic lows for several years as the Federal Reserve Board has initiated and maintained a loose monetary policy to help foster economic growth and recovery. Slow economic recovery has limited revenue growth. These trends reduced earnings early in this decade. FY 05 saw interest rates rise as the Fed's tightened the money supply, helping to improve earnings. Economy.com predicts rates peaking in calendar 2006.

Budget - Highway Fund balances normally carried forward have been partially used to fund expenditures in recent years. The recommended estimates are based on a further erosion of those balances down to an yearly average of \$30,000,000 in available balances invested.

Investment Policy - The Treasurer's investment policy (type of investment vehicle purchased, liquidity to meet daily needs, selection criteria for specific investments, etc.) affects the rate of return on the pool. No change in policy is expected.

### Forecast Recommended Changes:

Based on assumptions for balances, the estimates for earnings have been revised downward for each year.

| Assumptions               |              |              |              |              |              |              |              |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                           | FY03 Actual  | FY04 Actual  | FY05 Actual  | FY06         | FY07         | FY08         | FY09         |
| <b>Balances</b>           |              |              |              |              |              |              |              |
| Current Forecast          | \$63,307,527 | \$53,718,303 | \$57,959,816 | \$40,000,000 | \$40,000,000 | \$40,000,000 | \$40,000,000 |
| Revised Forecast          |              |              |              | \$30,000,000 | \$30,000,000 | \$30,000,000 | \$30,000,000 |
| <b>Pool Earnings Rate</b> |              |              |              |              |              |              |              |
| Current Forecast          | 2.06%        | 1.32%        | 2.39%        | 4.00%        | 4.00%        | 4.00%        | 4.00%        |
| Revised Forecast          |              |              |              | 4.33%        | 4.50%        | 4.50%        | 4.50%        |

